

## **DEBT SERVICE FUND MAJOR FUNDING CHANGES**

The General Debt Service Fund is used to account for the accumulation of resources for payment of general long-term debt principal and interest. Resources include an applicable portion of the Ad Valorem Tax Levy and related interest income usable from debt service. Funding of the general Debt Service Fund is based on a collectable portion of the tax levy. From this collectable portion, an allocation of available funds is made for General Fund operating revenue and General Debt Service Fund

### *Debt Issuance*

The City will issue debt only for the purpose of acquiring or constructing capital assets for the general welfare and benefit of its citizens. Debt may be issued for land, rights-of-way, improvements, construction projects, or for capital equipment.

### *Types of Debt*

General obligation bonds (GO's) are used only to fund capital assets of the general government and are not to be used to fund operating needs of the City. Those are backed by the full faith and credit of the City as well as the ad valorem tax authority of the City. General obligation bonds must be authorized by a vote of the citizens of the City of Laredo.

### *Revenue Bonds*

Revenue bonds (RB's) are issued to finance the capital requirements necessary for continuation or expansion of services which produce revenues and for which the assets are reasonably expected to provide a revenue stream to fund the debt service requirements.

### *Certificates of Obligation*

Certificates of obligation (CO's) are used to fund capital requirements, which are not otherwise covered under either Revenue Bonds or General Obligation Bonds. Debt service for CO's may be either from general revenues, backed by a specific revenue stream, or a combination of both. Generally CO's will be used to fund capital assets where full bond issues are not warranted as a result of the cost of the asset (s) to be funded through the instrument.

### *Method of Sale*

The City uses a competitive bidding process in the sale of bonds unless a negotiated bid is warranted. In situations where the competitive bidding process is not selected, the City will publicly present the reasons for the negotiated bid. The City will then participate with the financial advisor in the selection of the underwriter.

### *Bidding Parameters*

The notice of sale is carefully constructed to ensure the best possible bid for the City, considering the existing market conditions and other prevailing factors. Parameters to be examined include:

- Limits between lowest and highest coupons
- Coupon requirements relative to the yield curve
- Method of underwriter compensation, discount or premium coupons
- Use of bond insurance
- Deep discount bonds
- Variable rate bonds
- Call provisions

### *Analysis of Financing Alternatives*

Staff considers all financing alternatives for capital acquisitions and construction projects. These alternatives include (1) grants in aid, (2) loans from NADBank or other type of Revolving Loan, (3) use of reserves, (4) use of current revenues, (5) contributions from developers and others, (6) leases, and (7) impact fees.

Full disclosure of operations is made to the bond rating agencies and other users of financial information. The City staff with the assistance of financial advisors and bond counsel will prepare the necessary materials for presentation to the rating agencies, will aid in the production of the Official Statements, and will take responsibility for the accuracy of all financial information released.

### *Federal Requirements*

The City will comply with arbitrage rebate and other Federal requirements.

### *Debt Limit*

The City Charter Section 6.13, as amended in November 1995, limits the total overall outstanding debt to 10% of the total assessed valuation of the City.

### *Bond Ratings*

Laredo's bonds currently have the following ratings:

	Moody's	Standard & Poor's	Fitch
General Obligation Bonds	A2	A	A+
Certificate of Obligation	A2	A	A+
Revenue Bonds (Insured Rating)			
Bridge System	A3	A+	A+
Sewer System	A3	A	A+
Water System	Baa1	BBB+	A+

These ratings directly affect the cost of debt. The City's fiscal policies call for the maintenance of high bond ratings in order to minimize its cost of debt.